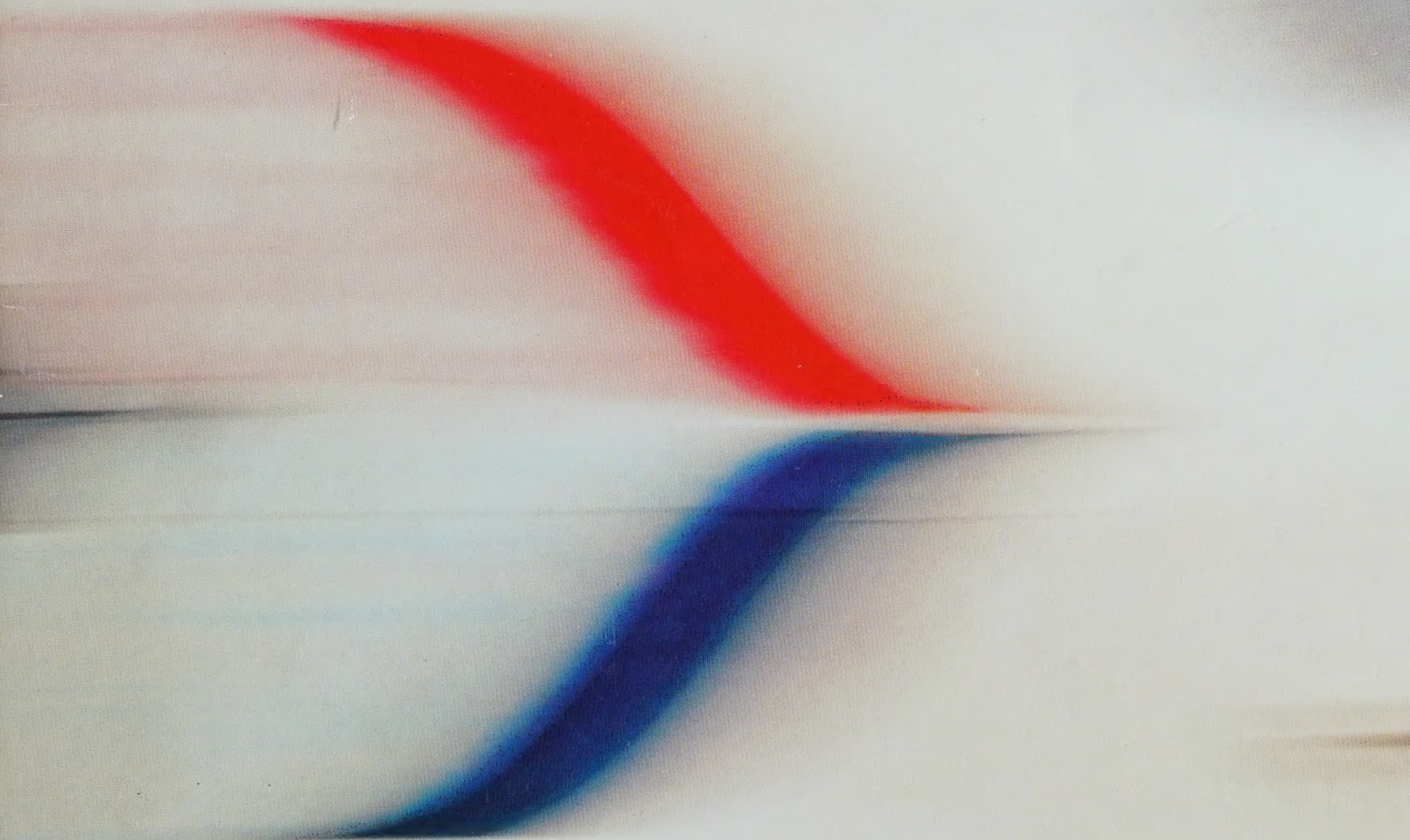


AR31





Contents

Chairman and President's Report	2
General Manager's Report	4
Mainline Services Report	9
Progress Graphs	11
Financial Report	12 - 18
Auditors' Report	18
10 Year Summary	19
System Route Map	20
Hercules Points of Call	20
Corporate Information	24
Senior Staff	Inside
	Back Cover

1972 in Brief

(in thousands of dollars)

Financial	1972	1971
Operating revenue	\$57,520	\$48,299
Operating expenses	49,361	40,849
Operating income	4,803	4,651
Deferred income taxes	1,916	1,473
Net earnings for the year	2,120	1,438
Cash flow from operations	6,903	5,503
Weighted average number of common shares issued	2,116,845	1,854,984
Earnings per common share before dilution	\$.88	\$.73
Fully diluted earnings per common share	\$.82	\$.61

Operations

Passengers carried		
Mainline	1,194,859	1,036,873
International charter	40,318	43,043
Domestic charter	26,805	33,675
Passenger miles flown		
Mainline	305,085,608	256,451,957
International charter	160,585,886	173,905,288
Domestic charter	26,331,625	30,786,693
Cargo ton miles flown		
Mainline	9,778,999	6,326,060
Domestic charter (excluding Hercules)	3,435,771	2,918,195
International charter (excluding Hercules)	5,572,136	—
Hercules	23,013,464	20,413,493
Aircraft miles flown		
Mainline	7,858,199	6,921,632
International charter	1,813,611	1,530,329
Domestic charter (excluding Hercules)	997,923	939,378
Hercules	2,520,970	2,050,166





Report of the Chairman and President

We are pleased to submit this report of your company's activities for the twelve month period ending December 31, 1972.

The year 1972 was one of continuing progress for Pacific Western Airlines Ltd. Consolidated revenues reached a new high of \$57,520,027. The company's operation of 14,000 scheduled route miles through 46 stations, carried 1,194,859 passengers and 9,778,999 ton-miles of cargo. The Contract and Charter Division carried 67,123 passengers and 32,021,371 ton-miles of cargo on domestic and overseas operations.

The company's net cash flow rose from \$5,503,000 the previous year to \$6,903,000. This cash flow enabled your company to provide initial payments on new aircraft and to retire debt of approximately \$2,000,000, during the year. The company implemented a pension plan in 1972 for its employees at a cost of approximately \$350,000. In addition, wages and salaries were increased by an average of 7½%. The net earnings of the company enabled the directors to declare a dividend on the common shares to shareholders of record August 15, 1972 and December 29, 1972. The shareholders approved a split in the common shares of the company on December 1, 1972 on a basis of two new shares for one share of old stock and in addition, increased the authorized capital from 1,500,000 to 5,000,000 shares. The company has now outstanding 2,306,676 common shares. The stock split will encourage wider participation of stock ownership and the increased authorized capital will provide the company with more flexibility.

The equity capital of the company was increased by more than \$3,000,000 during the year as a result of the conversion of most of the Series AA Convertible Debentures and the exercising of stock options. This resulted in the issuance of 451,692 new common shares.

SHAREHOLDERS

As of December 31, 1972

105,406
Shares



Non-Canadian

2,201,270
Shares



Canadian

The acquisition of additional equipment during the year increased our long term debt by approximately \$4,000,000. However, debt servicing charges showed a reduction of more than \$400,000 from the previous year as a result of our favourable refinancing of some term obligations.

In July permission was received from the Air Transport Committee of the Canadian Transport Commission to transfer the B.C. Air Lines' licences to Pacific Western Airlines. This allowed the publication of one tariff and timetable, reducing the cost of issuing marketing and operational material and much improving the marketing of your company's services.

Unfortunately, the trucking division did not achieve hoped for results and a loss was shown on its operations for the year, reducing the company's working capital position by about \$56,000, however, service to our customers was enhanced and the cost to them reduced. As can be seen in the General Manager's report, steps have been taken to improve the

operation of this subsidiary.

Late in 1972 arrangements were completed for the acquisition of the former CP Air hangar and office complex for your company's use.

The year 1973 continues to be an exciting one with good growth potential and with enough aircraft and crew capacity to meet the demand. The inclusive tours to Mexico, Hawaii and Jamaica are going to sell two and one half times as many seats in the 1972/73 winter program compared with 1971/72. The trans-Atlantic is now subject to the new ABC rules and it would appear that it will be completely sold with a new yield improvement in excess of 10%.

With a strong management team and dedicated employees in its service, your company stands ready to step up to the continuing growth in traffic and resource development that the future promises.

Respectfully submitted,

B. C. SAMIS, Chairman of the Board

D. N. WATSON, President





General Manager's Report

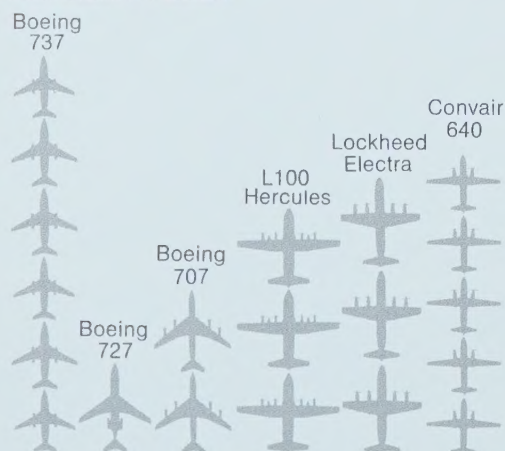
General Comment

1972 was a most eventful year during which six major aircraft were added to the company's fleet, while at the same time normal operations were continued. The expansion resulted in a substantially increased workload in all segments of the company's operations demanding a very high level of involvement by regular staff, and requiring the addition of 343 new employees bringing the total staff at year end to 1697.

In April and May two Lockheed L188 Electra aircraft were added — one in tanker configuration to supplement the Hercules activity in the Arctic and one in mixed cargo/passenger configuration to assist in mainline scheduled services and also as a courier aircraft for Arctic resupply for the oil companies.

In April and December Boeing 737 Fan Jet aircraft numbers 5 and 6 were put into service to respond to the requirement for an increased level of scheduled services. In July a 707-320C cargo jet was purchased for service on international cargo

CURRENT FLEET



operations and with it the company was also able to develop and to carry out trans-Atlantic and trans-Pacific cargo services involving the outbound movement of live cattle and backhauls of varied loads, including fruits and vegetables, for Canadian consumption. This aircraft was unfortunately lost early in the New Year, together with its crew — one of the company's most able and experienced. The cause of this tragedy is not yet known and is under investigation. The aircraft was fully insured and its replacement has been arranged for delivery in February 1973. In the meantime, provision has been made for the continuing contracts to be carried out by other carriers on our behalf.

A Boeing 727 Tri-Jet in convertible passenger/cargo configuration was obtained in October to replace an L188 Electra which was damaged during a training flight due to an undercarriage malfunction. This new type will be used on both scheduled and courier service to the high Arctic and will improve those services through its much greater speed, load capability and range. This is the first Tri-Jet to be operated in the Canadian Arctic and marks another milestone in your company's progress.

A further change in the company's fleet occurred during the year with the sale of its last piston engined aircraft (except the Mallard amphibians), substantially completing the conversion to an all turbine powered fleet.

The current fleet consists of five Convair 640's, three Lockheed L188 Electras and three L100 Hercules, all jet-prop powered; six Boeing 737 twin Fan Jets, one Boeing 727 Tri-Jet, one Boeing 707 passenger jet and one Boeing 707 cargo jet plus the two Grumman Mallard amphibians used on coastal services.

Operations

Although mainline revenues exceeded their forecast, charter revenues, particularly in the Hercules and Electra fleet, fell short in the last quarter of the year. The best forecasting information obtained from the petroleum industry indicated an exceptionally active fourth quarter but as it turned out, all but one major petroleum operator reduced their operations substantially. We are pleased to report that the new year has seen a resumption of the anticipated high Arctic activity.

Truck/air operations to the North were expanded with the introduction of a 100 hour guaranteed delivery service from Calgary and Edmonton to points in the Arctic through a combination of truck and air transportation using the facilities of the airline and Pacific Western Trucking. This has resulted in the movement of 5,321,774 pounds of cargo in addition to the 26,053,114 pounds carried on the regular air service.

Charter support of the Arctic oil activity has continued to involve the Hercules and the Electra tanker aircraft at various levels with first and second quarter peaks which required the lease, at times, of as many as four additional aircraft to meet the demand.

The oil company courier resupply aspects of the Northern activity were carried out with Electras.





International passenger charter activity continued at a reasonable level during the year, but problems were encountered due to the uncertainties in the charter market caused by the difficulties involved with affinity regulations, the unethical operations of some charter organizers, and the fact that some passengers had been stranded by foreign carriers. These problems have been resolved through the introduction of Advance Booking Charters which should restore order to the industry and provide us a substantial improvement in the coming year. The winter Inclusive Tour vacation program experienced its most successful season since commencement with over 17,000 passengers carried to and from sun spots in the Caribbean, Mexico and Hawaii using 707 and 737 aircraft, an increase of over 125% over the winter of 1971/72. We expect this increasingly popular program to continue to grow.

As reported above, a Boeing 707-320C heavy cargo aircraft was placed in service during the year to take advantage of the growing demand for specialized cargo movement, particularly in the Pacific Rim, and we expect this to provide a substantial new revenue base in the coming year.

Pacific Western Trucking contributed increased revenues during the year and materially contributed to our ability to increase the tonnage of freight flown on our truck/air operations. However, some changes in this division were required to keep it in step with the rest of your company and we have therefore entered into a contract with Trimac Ltd. of Calgary for the provision of general management services. Trimac is a very successful trucking and bulk carrier firm which also provides consulting services. Their expertise will greatly assist in bringing about the results we expect from our trucking division.

During the year Pacific Western Airlines entered into an agreement with Pan American World Airways through which we have been appointed the General Sales Agent for the latter company throughout our area of domestic operations. This contract has resulted in increased income for Pacific Western while providing wider coverage at lower cost for Pan American.

Personnel

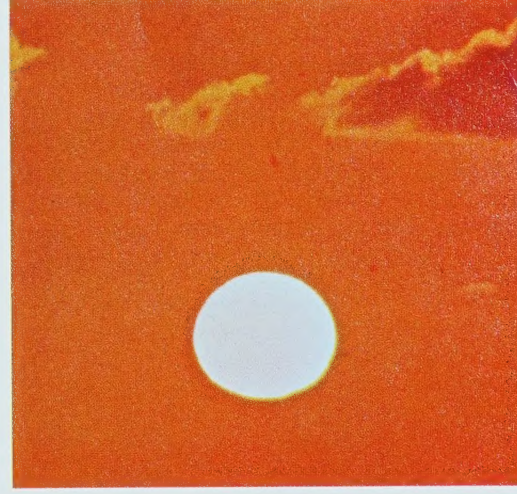
By the end of the year all of the company's union contracts were in a current position with no negotiations outstanding. Several agreements were concluded during the year which in general terms placed all Pacific Western employees in a very comparable position with employees in other North American airlines (consistent with the company's relative size and resources) in terms of salaries, working conditions and employee benefits.

Concerted efforts are being taken to encourage still better employee-management communications at all levels, together with enhanced and specifically tailored employee and management training programs.

There is no doubt that the high level of morale, the enthusiasm, and the co-operation of all employees overcame many obstacles and contributed significantly to the favourable results for the year.

Future

In addition to the healthy growth that can be anticipated in both the scheduled and charter activities of your company, we have a number of route applications in process which, when granted, will provide further impetus. The first is the addition of the town of High Level in northern Alberta to our route pattern. This addition was authorized by the Air Transport Committee in January 1973 and service to this point commenced on February 18th. High Level has been added to our present Edmonton/Peace River/Rainbow Lake service and should help to improve the economics of that route through a substantial traffic potential which can be obtained by a modest increase in flight miles. The second application is a direct service from Dawson Creek, B.C. to Vancouver via Kamloops which will substantially reduce the travel time between the Dawson Creek area and Vancouver. This application was approved in February 1973 and service will commence later this spring. The third is an application to operate non-stop



between Prince George, B.C. and Edmonton. No decision has been made on this application but if granted would provide more desirable routing and faster service than that presently offered between these points.

We have also applied for permission to operate a one-stop service between Edmonton and Vancouver via the B.C. Interior. This would supply a useful supplementary service between the Alberta capital and the West Coast and we feel that as such it would offer the limited competition with the trunk carriers that is authorized under the Government's regional policy. We expect that the convenience of this service, operated from the downtown Industrial Airport in Edmonton, would generate new traffic as both our Edmonton/Calgary Airbus and our Southern B.C. service between Calgary and Vancouver have done.

We have two trans-border applications which are being considered in the current bilateral discussions between Canada and the United States. The first is a direct Vancouver/Seattle service. There has not been a Canadian carrier on this route for many years and if granted this service would feed additional traffic to our own routes as well as to those of other Canadian carriers. In addition it would spread the very substantial fixed costs we experience in Seattle over a much larger number of passengers. The other trans-border route under review is from Calgary to Chicago. As you know, Chicago is a major air transportation hub with non-stop flights available to most major points on the continent. A service by Pacific Western connecting Vancouver, the B.C. Interior and Edmonton through Calgary to Chicago would provide a major improvement in service. We are optimistic that your company will be the designated Canadian carrier approved for the route when it is granted.

New Facilities

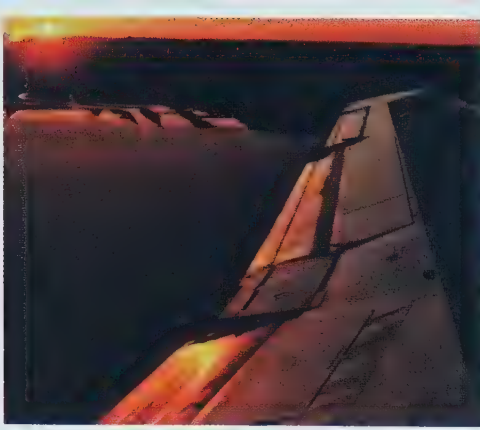
The rapid growth of your company in recent years has overtaxed the manual reservations system we have been operating to the point where the service to our customers has been badly impaired. During 1972 a comprehensive study of all computerized reservations systems available to your company was undertaken. As a result of the study we have entered a contract with Air Canada for the lease of part of their reservations computer capacity. The changeover to our new reservations facility is scheduled for early May 1973. When completed we will be in a position to provide improved service to present customers and also retain adequate capacity for future expansion.

The growth previously mentioned has also resulted in a severe overtaking of the present office and maintenance facilities of the company in Vancouver to the point where efficiency has begun to suffer. To alleviate this situation the former CP Air complex located immediately adjacent to our present facilities was acquired on January 2, 1973, at a very favourable price and on reasonable terms. We are planning the integration of these new premises this Spring. We expect that our general efficiency will be greatly improved and that further future growth can be easily accommodated through this expansion.

Respectfully submitted,



W. R. HARRIS



Mainline Services

This area of your company's operations appears to have satisfactory future growth and earning potential which should preclude the necessity for any rate increases during 1973. The continuing computerized fleet plan program conducted jointly by the Boeing Company and our Corporate Planning Group indicates the need for the addition of a new mainline aircraft at ten month intervals and the seventh Boeing 737 will be delivered in January 1974.

Community relations throughout the areas we serve are good and a program of communication with the Municipal Councils and Chambers of Commerce is functioning well. Route patterns are substantially established, subject to new awards that may be granted, and we have entered into a relationship with a growing number of smaller, highly competent, carriers to provide supplementary service over some of the lighter traffic segments, thus maintaining good public service without the expense of operating large aircraft. This arrangement which has proven very successful in other countries is unique in Canada and Pacific Western is providing the leadership in this innovative approach to the service of smaller communities.

International Passenger Charters

After many years of trans-Atlantic operation under the affinity charter rules with attendant problems so familiar to the travelling public, a new concept of advance booking charters which does not require group affiliation has been developed and is

now in effect. Early results indicate the public have accepted this new approach to low cost travel and we anticipate that as a result our 1973 yield on trans-Atlantic charters should improve by about 10%.

The Inclusive Tour program during the 1972/73 winter season has been the most successful to date with load factors averaging over 94%. The outlook for the summer and the 1973/74 winter is such that we expect to use both 727 and long range 737 aircraft to augment the capacity of our 707.

Hercules Charters

This activity in support of the oil industry in the North has started off well in 1973 and the volume promises to equal 1972. The oil industry planning appears to be more refined than it was last year allowing better aircraft utilization. Several overseas contracts are being arranged to employ these aircraft during the summer off-season in the Arctic. One of these aircraft has just completed the first commercial cargo trip ever made from Canada to Peking, China, delivering equipment for a satellite tracking system.

As the petroleum industry regains the impetus it had, the Electra charter and 727 tri-jet vertical resupply to the Arctic Islands will grow accordingly. Every indication is that we are now engaged in this resurgence.

International Cargo Charters

This program will commence on March 27th when our new 707-320C goes into service delivering a cargo of cattle from Canada to Seoul, Korea and continuing around the world picking up cargo in Hong Kong and Amsterdam. In spite of the setback due to the loss of crew and aircraft in early January, the Contract and Charter Department was able to make interim alternate arrangements for our

customers with the result that they have been retained and prospects are good for a very active year. This is a very exciting area of our operation which, given time for development, has tremendous potential.

New Company Facilities

In 1960 when Air Canada moved into its present complex, your company bought its facility just released at Vancouver. At that time, the company fleet consisted of six DC3's, four DC4's, five C46's and some bush aircraft and was generating around 5 million dollars in revenues. At the end of 1972, after having advanced to six 737 fan jets, two 707 inter-continental fan jets, a 727-100C tri-jet, three Hercules prop jets, three Electra prop-jets and five Convair prop-jets, hangar and office accommodation became acute. As a partial answer to the problem, your company acquired, on very favourable terms, the complex previously operated by CPAir. This was at an annual capital cost for five years of less than we were about to have to pay for 35,000 sq. ft. of office space on lease in Richmond. We now have adequate hangar and office capability at Vancouver to handle the next ten years' growth.

Edmonton is somewhat of a different situation where we are in desperate need of additional hangarage. The tenure of the Edmonton Industrial Airport has improved to the point to permit negotiating 280,000 sq. ft. of land lease with the city. However, our activities there must satisfy both the city and the Ministry of Transport and recent meetings have indicated that there are still some matters of importance to us that may not be finally settled and agreed to; therefore, any construction must of necessity be related to tenure and in the meantime our mobility must be maintained.

The growth of your company and the sophistication of modern technology has led to the setting up of a modern Systems Operations Control Centre (known as SOC centre). This will be operational in our new building #4 at Vancouver on April 10. This Centre acting like a control hub of all operations uses approximately 8200 sq. ft. of space and brings together for the first time — Dispatch, Payload Control, Crew Routing, Equipment Routing, Maintenance Planning, Reservations Control and Communications. The efficiency of this system should assure maximum safety and optimize payload and on-time performance.

On May 4, 1973 your company will go on stream with a centralized reservations system located in the Board of Trade building in downtown Vancouver. A block of capacity of Air Canada's Toronto based Reservec II has been acquired as well as their Automatic Call Director telephone system. The latter will eliminate the busy signals customers have been getting from our overloaded system and the computer reservations will, of course, provide very rapid and accurate reservations to any part of the world plus an automatic control system. This is an exciting development for both companies and should assure much greater load factors and a higher level of customer convenience and satisfaction.

For nearly a year now your company has been operating a Honeywell #105 computer system with accounts receivable, accounts payable and general ledger on the electronic data process. It has worked out very well thanks to our people, our advisers and three years of study. This unit will be replaced with a more advanced model #2020 at mid-year and will provide capacity to meet company growth.

Security

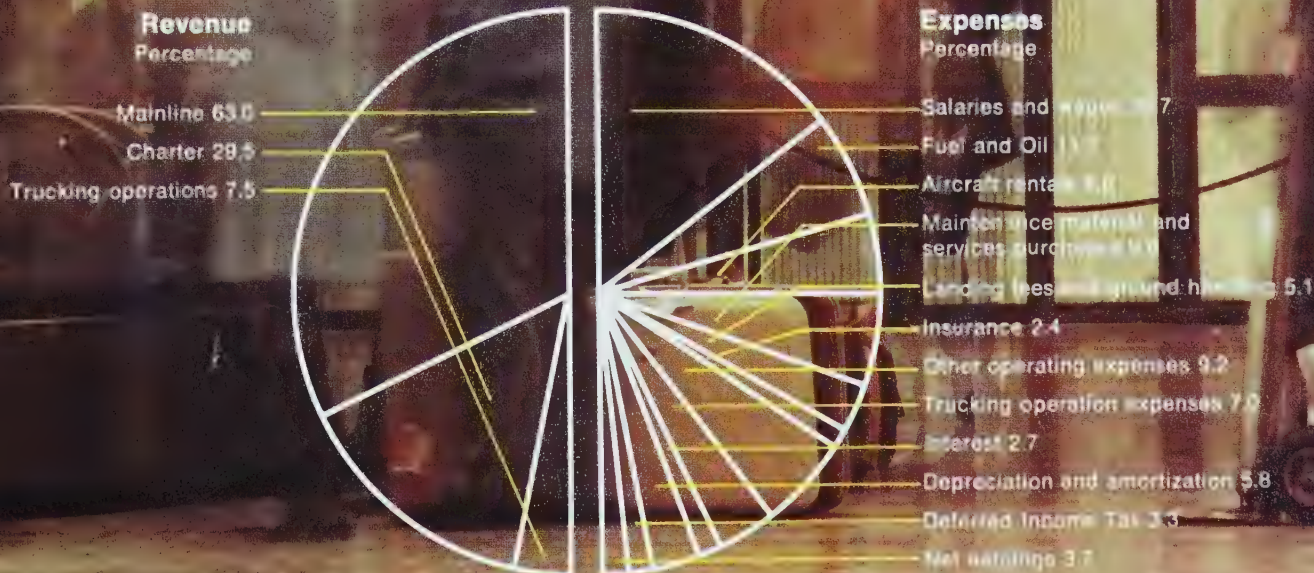
This has become a major matter during the past 12 months and your company in conjunction with RCMP and Ministry of Transport has taken the matter very seriously. We now have full security on hangar and tarmac facilities owned by the company and consider the terminal to be a Federal matter. These measures with their attendant new costs are made necessary by the nature of this era which is propagating aerial piracy and terrorist actions.

Training

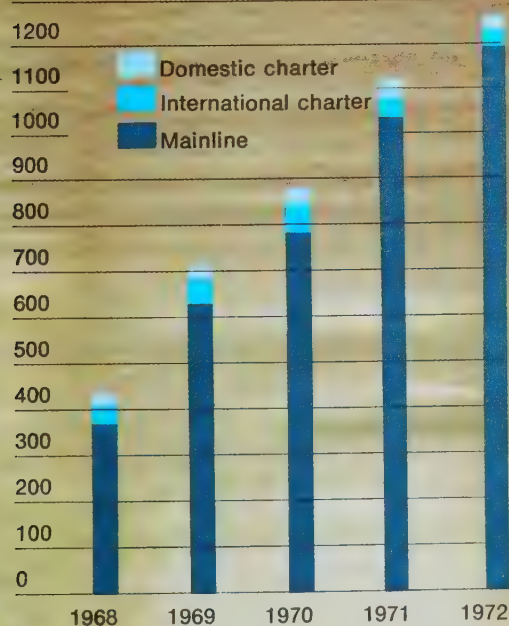
Training of personnel always has been and will always be one of the best investments an airline can make. However, rapid growth can increase training, however necessary, to the point where it represents a major expense. While recurrent training will continue in all departments as well as initial training for new employees, flight training has been caught up to where all crews are trained on their equipment and, other than routine check flights, very little additional should be required during the year. This will result in a substantial saving in costs compared with 1972.

Your company is indeed very fortunate to have employees with the dedication, loyalty and determination to make their company a better place to work and with an exciting future. Far less of your management's time is directed to labour matters than in most companies. In many cases, Union executive and employees are assisting the company in developing cost saving procedures. An excellent rapport and good lines of communication exist between all employee groups and management.

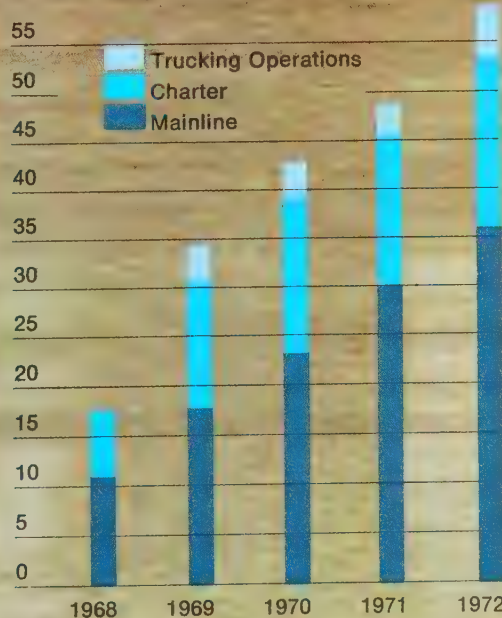
Dollar Distribution 1972



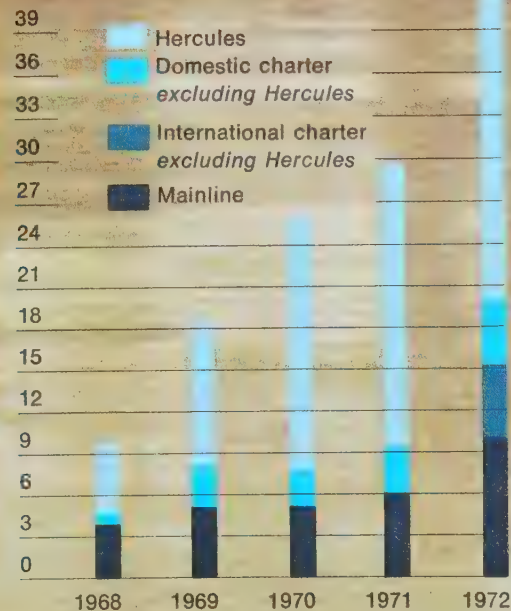
Passengers Carried Thousands



Revenue Millions



Cargo Ton Miles Millions



CONSOLIDATED BALANCE SHEET

December 31, 1972 (with comparative figures for 1971)

ASSETS	1972	1971
Current assets:		
Cash and short-term bank deposits	\$ 3,619,044	875,493
Accounts receivable	8,242,551	6,773,915
Inventory of parts, material and supplies, at the lower of cost or net realizable value	1,450,399	1,255,207
Prepaid expenses	951,990	906,464
Total current assets	14,263,984	9,811,079
Rental deposits on leased flight equipment	1,959,255	2,006,829
Property and equipment, at cost less depreciation (Note 3):		
Flight equipment	34,869,876	26,997,456
Land, buildings and ground facilities	7,139,355	5,823,164
	42,009,231	32,820,620
Less accumulated depreciation and provision for overhauls	10,104,732	10,556,256
Property and equipment, net	31,904,499	22,264,364
Deferred charges less amortization, and other assets:		
Introductory costs of new aircraft and services (Note 4)	1,146,733	1,179,637
Debt financing expenses	50,437	80,155
Investments, at cost	110,281	109,581
Total deferred charges and other assets	1,307,451	1,369,373
Goodwill, at cost	2,130,074	2,293,899
	\$51,565,263	37,745,544

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
Current liabilities:		
Bank indebtedness, secured by a general assignment of a subsidiary company's accounts receivable	\$ 280,000	69,000
Accounts payable and accrued expenses	7,495,078	5,282,766
Accrued wages and vacation pay	1,115,317	875,106
Dividend payable	288,334	231,873
Current portion of long-term debt (Note 5)	3,237,053	1,867,506
Unearned transportation revenue	511,812	479,282
Total current liabilities	12,927,594	8,805,533
Long-term debt (Notes 5 and 6)	20,224,612	16,813,675
Deferred income taxes (Note 7)	4,071,483	2,123,918
Shareholders' equity:		
Capital stock (Note 8)	8,589,861	5,517,626
Retained earnings, per accompanying statement (Notes 7 and 9)	5,751,713	4,484,792
Total shareholders' equity	14,341,574	10,002,418
Commitments and contingencies (Notes 10 and 11).		
On behalf of the Board:		
C. W. BRAZIER, Q.C., Director		
W. J. BORRIE, Director		
	\$51,565,263	37,745,544

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1972 (with comparative figures for 1971)

	1972	1971
Operating revenues:		
Mainline:		
Passenger	\$30,234,755	25,529,487
Cargo	4,070,789	3,412,705
Mail	1,234,007	1,242,867
Truck - Air	716,253	—
Total mainline	36,255,804	30,185,059
Charter	16,973,665	15,169,216
Trucking	4,290,558	2,944,653
Total operating revenues	57,520,027	48,298,928
Operating expenses:		
Flying operations	20,734,710	18,018,686
Maintenance (Note 3)	9,219,195	7,984,055
Customer service	9,765,997	7,570,425
Trucking operations	4,020,177	2,807,814
Marketing	2,057,019	1,705,775
General and administrative	3,563,623	2,761,987
Total operating expenses	49,360,721	40,848,742
Operating income before depreciation and amortization	8,159,306	7,450,186
Depreciation (Note 3)	2,734,250	2,160,719
Amortization of introductory costs (Note 4)	621,708	638,536
	3,355,958	2,799,255
Operating income	4,803,348	4,650,931
Other income	790,429	274,548
Interest on long-term debt and financing expenses	(1,558,144)	(2,014,534)
Earnings before income taxes	4,035,633	2,910,945
Income taxes (Note 7)	1,915,956	1,473,101
Net earnings	\$ 2,119,677	1,437,844
Earnings per common share (Note 12)	\$.88	.73
Fully diluted earnings per common share (Note 12)	\$.82	.61

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1972 (with comparative figures for 1971)

	1972	1971
Balance at beginning of year	\$ 4,484,792	3,600,905
Net earnings for the year	2,119,677	1,437,844
	6,604,469	5,038,749
Dividends:		
Preferred	263,285	56,704
Common	571,933	231,873
	835,218	288,577
Cost of issuing and sub-dividing common shares, net of income taxes	17,538	250,380
Adjustment of deferred income taxes accumulated in prior years	—	15,000
	852,756	553,957
Balance at end of year	\$ 5,751,713	4,484,792

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1972 (with comparative figures for 1971)

	1972	1971
Funds provided by:		
Operations:		
Net earnings	\$ 2,119,677	1,437,844
Add charges not requiring cash expenditure	4,783,288	4,065,412
Funds provided by operations	6,902,965	5,503,256
Bank term loan	2,600,000	4,300,000
Disposal of equipment	895,471	349,627
Issue of common shares (not including \$2,689,345 resulting from conversions and exchanges)	503,250	—
Issue of \$2.20 redeemable preferred shares Series A	—	3,318,240
Other	115,142	—
Total funds provided	11,016,828	13,471,123
Funds applied to:		
Property and equipment	12,626,626	2,879,478
Less amount financed through long-term debt	9,402,681	166,386
	3,223,945	2,713,092
Long-term debt	5,975,442	6,757,826
Dividends	835,218	288,577
Introductory costs of new aircraft and services	651,379	212,364
Redemption of first and second preferred shares	—	1,114,450
Other	—	153,974
Total funds applied	10,685,984	11,240,283
Increase in working capital	330,844	2,230,840
Working capital (deficiency) at beginning of year	1,005,546	(1,225,294)
Working capital at end of year	\$ 1,336,390	1,005,546

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1972

1. **PRINCIPLES OF CONSOLIDATION:**

The consolidated financial statements include the accounts of the company and all of its subsidiaries. All material inter-company transactions have been eliminated.

The financial statements for the year ended December 31, 1971, as previously reported, have been reclassified where applicable to conform with the presentation used in the current year.

2. **CONVERSION OF FOREIGN CURRENCIES:**

Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1972.

3. **PROPERTY AND EQUIPMENT:**

Fixed assets, with the exception of aircraft spare parts, are depreciated on a straight-line basis at varying rates dependent upon their estimated useful life with appropriate provision for residual values. Aircraft spare parts are depreciated on the diminishing balance basis.

In addition, provision for airframe and engine overhaul costs is made by an hourly overhaul charge, except for Boeing 737 aircraft where no provision is made because the planned life cycle does not entail a periodic major overhaul, but instead, requires periodic shop visits and repair.

4. **INTRODUCTORY COSTS OF NEW AIRCRAFT AND SERVICES:**

Initial flight crew training expenses on the introduction of new types of aircraft and pre-operating costs of new routes and services have been deferred. These costs are amortized on a straight-line basis over five years.

5. **LONG-TERM DEBT:**

	Total	Due within one year	Non- current
Parent company:			
7 $\frac{3}{8}$ % - 8 $\frac{3}{8}$ % bank term loans payable by monthly, quarterly and semi-annual instalments at various dates up to May, 1980, secured by chattel mortgages on various aircraft	\$13,717,515	2,307,279	11,410,236
6 $\frac{1}{2}$ % revolving bank term loan maturing 1974	2,600,000	—	2,600,000
6% term loans payable to Export-Import Bank of United States by semi-annual instalments commencing November 15, 1977, guaranteed by certain Canadian banks who hold chattel mortgages on various aircraft (U.S. \$3,832,621)	3,807,690	—	3,807,690
Lease-purchase obligations on various flight equipment payable by monthly and quarterly instalments including interest, at various dates up to April, 1982	1,432,383	390,824	1,041,559
7% notes payable, secured by debenture on assets of B.C. Air Lines Limited, payable \$250,000 annually to August, 1975	750,000	250,000	500,000
Other agreements, payable at various dates	75,728	19,999	55,729
Total parent company	22,383,316	2,968,102	19,415,214
Subsidiary company, secured by specific and floating charges on property and equipment of the subsidiary:			
7% debenture payable over 2 years	180,000	90,000	90,000
Bank loan	340,000	120,000	220,000
Other mortgages, notes and agreements, payable at various dates and bearing interest at various rates	558,349	58,951	499,398
Total subsidiary company	1,078,349	268,951	809,398
	<u>\$23,461,665</u>	<u>3,237,053</u>	<u>20,224,612</u>

The Company has issued under a Deed of Trust and Mortgage a debenture in the principal amount of \$5,000,000 and pledged the same as general security for its loans from Canadian Imperial Bank of Commerce. This Trust Deed constitutes a specific charge on the Convair 640 aircraft and spare parts and a floating charge on all of the company's assets and undertaking. The Mercantile Bank of Canada also holds as additional security for its loans a debenture providing a floating charge on all assets of the company, subject to the prior charge of the Canadian Imperial Bank of Commerce referred to above.

6. DEBT MATURITY:

Maturities of long-term debt for the next five years are as follows:

1973	\$ 3,237,053
1974	6,081,995*
1975	3,306,699
1976	2,492,100
1977	1,452,956
	<u>\$16,570,803</u>

* Includes \$2,600,000 revolving term bank loan.

7. DEFERRED INCOME TAXES:

The company has claimed for tax purposes certain deferred charges and capital cost allowance in excess of depreciation recorded in the accounts. Effective January 1, 1968, in accordance with a recommendation of the Canadian Institute of Chartered Accountants, the company decided to adopt for 1968 and future years the policy of charging to earnings the deferred taxes which arise from these timing differences. The balance at December 31, 1972 of unrecorded deferred taxes relating to these differences is \$1,800,000.

The tax benefit of \$379,505 resulting from the application of prior years' losses, which was not recorded by the company's subsidiary, B.C. Air Lines Limited, at date of acquisition, has been realized since that date. This benefit has been credited to the excess cost arising on the acquisition of this subsidiary.

8. CAPITAL STOCK:

\$2.20 redeemable preferred shares Series A without nominal or par value. Authorized 120,000 shares; issued 115,920 shares	\$ 3,419,640
Common shares without nominal or par value. Authorized 5,000,000 shares, issued 2,306,676 shares	5,170,221
	<u>\$ 8,589,861</u>

The \$2.20 redeemable preferred shares Series A are redeemable on or after December 1, 1976 at the option of the company at \$31.70 per share up to and including November 30, 1977, reducing by \$.44 in each year thereafter to \$29.50.

Each of the \$2.20 redeemable preferred shares Series A is exchangeable at the option of the holder at any time on or prior to December 1, 1978 for four common shares.

The following changes in capital stock took place during the year ended December 31, 1972:

	No. of shares	Amount
\$2.20 redeemable preferred shares Series A exchanged for common shares	<u>4,080</u>	<u>\$ 120,360</u>
Common shares issued (after giving effect to stock split):		
For cash	70,000	\$ 503,250
On exchange of \$2.20 redeemable preferred shares Series A	16,320	120,360
On conversion of 7% convertible sinking fund debentures Series AA	365,372	2,568,985
	<u>451,692</u>	<u>\$ 3,192,595</u>

Effective December 15, 1972 pursuant to Sections 52, 53 and 56 of the B.C. Companies Act, the common shares of the company were split 2 for 1 and the number of shares the company is authorized to issue was increased to 5,000,000 shares.

463,680 common shares are reserved for exchange of the 115,920 \$2.20 redeemable preferred shares Series A.

9. DIVIDENDS:

The Articles of Association of the company pertaining to the \$2.20 redeemable preferred shares Series A contain, among other provisions, a restriction on the payment of dividends on common shares. Under this restriction, retained earnings of \$5,465,000 as of December 31, 1972 are available for the payment of dividends.

10. COMMITMENTS:

(a) Minimum annual rentals under long-term lease agreements in effect at December 31, 1972 for certain flight equipment including 8 aircraft are approximately \$5,300,000 in each of the next 5 years, \$4,500,000 in 1978, \$4,000,000 in 1979, \$3,200,000 in 1980 and \$1,300,000 in 1981.

(b) The company has the following commitments:

- (i) to acquire a Boeing 737 aircraft for delivery in January, 1974 at an estimated cost of U.S. \$5,300,000. The company is negotiating long-term financing for the acquisition of this aircraft.
- (ii) to acquire 3 Boeing 737 engines at a cost of U.S. \$1,294,650. The company has arranged long-term financing for 85% of this cost.
- (iii) for Federal sales tax on a jet engine and 4 aircraft imported during 1972 in the amount of \$1,480,000. The company has arranged long-term financing for \$1,335,000 of this amount.

- (c) As a result of changes made to its pension plan effective January 1, 1972, the company incurred an additional liability of \$1,225,000 for past service benefits in respect to certain employees, which is payable at the rate of approximately \$8,400 a month for a period of 180 months and \$7,500 a month for a period of an additional 60 months. The company is charging this amount to operations as it is paid.
11. CONTINGENCIES:
An action has been brought by an individual against the company for \$526,425, being \$500,000 general damages for repudiation of contract and \$26,425 special damages. Counsel for the company is of the opinion that the company has a good defence to this action.
12. EARNINGS PER COMMON SHARE:
The per share figures have been computed by dividing the net earnings after accrual of preferred share dividends by the weighted average number (2,116,845; 1971, 1,854,984) of common shares outstanding during each year after giving effect to the split of common shares 2 for 1 which was authorized during the year.
In calculating fully diluted earnings per share, the weighted average number of common shares outstanding has been calculated assuming all preferred shares outstanding at December 31, 1972 had been exchanged for common shares on January 1, 1972. Net earnings used in this calculation reflect the reduction of preferred share dividends resulting from this assumption.
13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:
The aggregate remuneration of directors, senior officers and certain operating personnel of the company, as defined by the B.C. Securities Act, amounted to \$352,847 for the year 1972, of which \$7,000 represents directors' fees paid in 1972.
14. SUBSEQUENT EVENTS:
(a) In January, 1973, the company acquired an office building and hangar complex at Vancouver International Airport at a cost of \$1,250,000, payable \$250,000 in January, 1973, \$250,000 in May, 1973 and \$250,000 in each of the years 1974 to 1976, inclusive.
(b) In January, 1973, the company entered into an agreement with Northwest Airlines, Inc. to acquire a Boeing 707-320C to replace the aircraft lost as a result of a landing accident on January 2, 1973. The aircraft lost was fully insured. Arrangements are being made to finance the acquisition of the replacement aircraft by way of a long-term lease.
(c) As part of an agreement for the management of its trucking division, the company in January, 1973 granted an exclusive option exercisable on May 31, 1974 to purchase a 50% equity in its trucking division at a price to be determined in accordance with the agreement.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO ,
Chartered Accountants

Vancouver, British Columbia
January 26, 1973

10 YEAR SUMMARY

(all figures in thousands)

FINANCIAL STATISTICS

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Mainline revenue	\$36,256	\$30,185	\$23,496	\$17,978	\$11,082	\$10,308	\$ 8,583	\$ 7,133	\$ 5,563	\$ 4,285
Contract and charter revenue										
Hercules — cargo	7,974	7,742	7,019	5,597	1,823	1,425	—	—	—	—
International — charter	5,487	4,741	7,962	5,463	3,747	1,548	1,813	1,870	1,338	—
Multi-engine aircraft (excluding International and Hercules)	3,512	2,686	2,065	2,337	919	1,097	1,021	827	662	663
Single-engine aircraft			—	—	47	556	782	1,675	1,279	1,284
Trucking operations	4,291	2,945	2,847	2,500	—	—	—	—	—	—
Total revenue	\$57,520	\$48,299	\$43,389	\$33,875	\$17,618	\$14,934	\$12,199	\$11,505	\$ 8,842	\$ 6,232
Funds provided by operations	6,903	5,503	3,575	2,435	2,054	2,184	1,606	1,041	691	457
Depreciation and amortization	3,356	2,799	3,087	2,058	1,389	1,336	480	395	367	373
Equipment purchased	12,627	2,879	2,822	13,650	1,701	6,949	6,016	1,454	703	450
Income taxes										
Paid (recovered)	—	—	—	—	—	—	(57)	310	8	—
Deferred (Note 1)	1,878	1,494	(162)	194	242	237	500	119	113	54
Gain (loss) on disposal of equipment (after deferred income taxes) (Note 2)	43	(22)	(69)	440	110	91	292	24	49	5
Net earnings (loss)	2,120	1,438	(232)	584	311	317	734	461	180	57
Reduction of long-term debt	5,975	6,758	2,861	3,821	1,889	2,641	1,295	344	375	347
Dividends										
Preferred shares	263	57	64	64	64	67	70	70	124	15
Common shares	572	232	—	—	—	—	—	—	—	—

OPERATING STATISTICS

Mainline										
Passengers carried	1,195	1,037	789	627	371	364	302	230	180	127
Cargo carried (lbs.)	31,375	21,595	18,732	15,987	11,408	12,158	10,582	12,429	9,787	8,355
Passenger miles flown	305,086	256,452	209,007	168,068	95,426	92,909	77,877	56,813	43,347	34,073
Ton miles flown	40,288	31,971	26,455	21,834	13,097	12,939	11,035	9,202	6,961	5,409
Aircraft miles flown	7,858	6,922	6,065	5,501	3,191	3,732	3,217	2,844	2,426	1,992
Contract and charter										
Hercules aircraft miles flown	2,521	2,050	1,992	1,288	578	563	—	—	—	—
International charter miles flown	1,814	1,530	2,603	1,750	1,117	670	744	842	726	—
Other multi-engine aircraft miles flown	998	940	851	908	484	544	657	466	399	384

Note 1: In order to present a proper comparison of earnings, the presentation of earnings for 1962 to 1967 has been amended to reflect the amount of deferred income taxes applicable to each year.

Note 2: Gain on disposal of fixed assets before deferred income taxes in 1972 and loss on disposal of fixed assets before deferred income taxes in 1971 was included in "Other Income" in the 1972 and 1971 Statements of Earnings, however, to be consistent with our ten year summary the gain or loss on disposal has been reclassified for 1972 and 1971.



HERCULES POINTS OF CALL 1972



When an airline grows as rapidly as Pacific Western has; and when sophisticated sales techniques and old-fashioned customer service combine to make an airline as successful as yours, sometimes it's difficult to remember what's really behind it all. We think it's our attitude. Our pioneering spirit.

It's the same spirit that's made us the pioneer developer of our great Northern frontiers. And it's been the privilege of association with this last frontier that's taught us how to really service this area. To assist in the wise development of our natural resources. To help the people who live there through reliable service and delivery of essential materials and supplies. To develop the recreational possibilities of the Arctic. And to maintain an effective means of communication with the rest of the world "south of 60".

It's been our pioneering spirit and "know-how" that's led to our unique position as a truck/air carrier for the North through our Alberta operations. We've developed a system that combines the flexibility of trucking with the massive lifting power of aircraft to deliver all manner of men and material to the North.

And that same inventiveness is being turned to Alberta's own advantage through our AirBus service — frequent 37-minute flights between Edmonton and Calgary. And direct links with trans-continental carriers from these two vibrant, fast-growing cities.

It's been our pioneering search for effective transportation methods that has led to our jet network throughout British Columbia. A system that stretches from the resource-rich interior and north coast of B.C. through the Cariboo to the beauty spots of the Okanagan, and thriving communities of the Kootenays.

And from our Vancouver nerve centre we operate service to Victoria, Seattle and inter-line connections with the United States; inclusive tours 707 jet service to Hawaii, Mexico and the Caribbean; ABC charter service to Europe; and Hercules and giant Boeing 707-320C cargo shipping all over the world.

In fact, it's our pioneering spirit that led to the first air cargo contact with the People's Republic of China. A shipment of electronic equipment to Peking.

What's on our horizon? A future as wide as the world. And we can handle it with the knowledge we've gained from our past. Because we've got an airline with spirit. Pioneering spirit. Just ask us.







DIRECTORS

B. C. SAMIS

Chairman of the Board

Director, Dominion Securities,
Investment Dealers,
Vancouver, B.C.

W. J. BORRIE

Chairman, Pemberton Securities Ltd.,
Investment Dealers,
Vancouver, B.C.

C. W. BRAZIER, Q.C.

Partner, Davis & Company,
Barristers & Solicitors,
Vancouver, B.C.

J. D. HAGAR

Investment Dealer (Retired),
Vancouver Island, B.C.

W. R. HARRIS

Vice-President and General Manager
Pacific Western Airlines Ltd.
Vancouver, B.C.

E. W. KING

President, Canadian Utilities Ltd.,
Edmonton, Alberta

D. H. SEARLE

Partner, Searle & Finall,
Barristers & Solicitors,
Yellowknife, N.W.T.

R. D. SOUTHERN

President, ATCO Industries Ltd.,
Calgary, Alberta

D. N. WATSON

President, Pacific Western Airlines Ltd.,
Vancouver, B.C.

OFFICERS

D. N. WATSON

President

W. R. HARRIS

Vice-President and General Manager

R. T. EYTON

Vice-President, Northern Region

D. F. GRANGER

Vice-President, Finance and Secretary

R. L. LAKE

Vice-President, Technical Services

J. C. S. MILES

Vice-President, Operations

A. J. MOUL

Vice-President, Cargo and Contracts

HEAD OFFICE

Vancouver Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.
Victoria, B.C.
Edmonton, Alta.
Regina, Sask.
Winnipeg, Man.
Toronto, Ont.
Montreal, Que.

BANKERS

Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.
Vancouver, B.C.

SHARES LISTED

Vancouver Stock Exchange
Toronto Stock Exchange

SUBSIDIARY COMPANIES

(Wholly Owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Byers Transport Limited
B.C. Air Lines Limited
P.W. Trucking Ltd.

SENIOR STAFF HEAD OFFICE – VANCOUVER

D. J. ALMAS	<i>Director of Revenue Forecasting</i>
W. J. BRYAN	<i>Director of Engineering & Maintenance Services</i>
G. J. COOKE	<i>Director of Customer Services</i>
T. W. CROSS	<i>Director of Training</i>
R. W. CULLEN	<i>Director of Budgeting</i>
W. DOBIN	<i>Director of Maintenance System</i>
K. E. FRANSBERGEN	<i>Director of Flight Operations</i>
L. G. FRASER	<i>Director of Safety and Insurance</i>
D. R. JACOX	<i>Director of Community & Interline Affairs</i>
M. G. PEARSON	<i>Director of Marketing</i>
E. E. PEZZOT	<i>Director of Operational Planning</i>
J. M. ROBINS	<i>Director of Management Services and Corporate Planning</i>
L. SAMBELL	<i>Director of Cost Standards and Systems</i>
C. STEWART	<i>Director of Quality Control</i>
F. H. TOY	<i>Director of Communications</i>
F. A. WELBOURN	<i>Director of Personnel Development</i>
R. W. WILSON	<i>Director of Materiel Control</i>
A. W. CORBETT	<i>Controller</i>
R. W. BENALLICK	<i>Treasurer</i>
C. STEUART	<i>Chief Internal Auditor</i>
M. E. PEEBLES	<i>Paymaster</i>
R. BARNES	<i>Manager, Charter Operations, Europe</i>
E. CARON	<i>Manager, Airport Services</i>
J. CARTER	<i>Manager, Financial Information and Cost Analysis</i>
J. CHILDS	<i>Manager, Technical Projects</i>
A. CRAIG	<i>Manager of Credit</i>
J. DEARN	<i>Manager of Stores</i>
B. EMERY	<i>Manager of Engineering</i>
G. M. GARVIN	<i>Manager, Public Relations and Advertising</i>
K. E. GRAY	<i>Manager, International Passenger Operations</i>
G. J. HERDMAN	<i>Manager, Revenue Accounting</i>
H. LUTHER	<i>Manager, Data Processing</i>
J. M. MILES	<i>Manager, International Passenger Sales</i>
R. MOORE	<i>Manager, In-Flight Services</i>
B. F. MULLER	<i>Manager, Catering Services</i>
P. NG	<i>Manager, Charter Operations, Southeast Asia</i>
R. J. NOON	<i>Manager, Reservation and Ticket Offices</i>
A. PEARCE	<i>Manager, Personnel</i>
N. R. PRICE	<i>Manager, Property and Equipment</i>
D. R. PENGELLY	<i>Manager, Purchasing</i>
W. SHUFFLEBOTHAM	<i>Manager, International Cargo Operations</i>
J. WALLACE	<i>Manager, Crew Scheduling</i>
K. BJORGE	<i>Assistant to Vice-President, Contract & Charter</i>
C. JARVIS	<i>Admin. Assistant to Vice-President, Operations</i>
R. BURROW	<i>Chief Dispatcher</i>

WESTERN REGION – VANCOUVER

T. BOND	<i>Manager, Claims</i>
D. DELHAYE	<i>District Manager, Airport Services</i>
R. GILLET	<i>Manager, Customer Services, Vancouver</i>
G. PETRI	<i>District Manager, Catering Services</i>
H. PORTER	<i>Manager, Maintenance</i>
I. C. RENNIE	<i>Manager, Field Sales, Training & Development</i>
T. ROSS	<i>District Manager, Airport Services</i>
M. WATERS	<i>Manager, Reservation Services</i>
B. WEBB	<i>Manager, Equipment Routing</i>
J. PACKHAM	<i>Air Cargo Services, Vancouver</i>
R. WATERHOUSE	<i>District Manager, In Flight Services</i>

Customer Services Managers

J. BLAIR	<i>Prince Rupert</i>
S. BULLOCK	<i>Prince George</i>
A. COCKBURN	<i>Victoria</i>
B. EHMAN	<i>Castlegar</i>
L. FILIPEK	<i>Campbell River</i>
C. FOWLER	<i>Kelowna</i>

H. FRANK	<i>Comox</i>
D. HANEMAN	<i>Cranbrook</i>
J. HUIBERS	<i>Kamloops</i>
L. JONES	<i>Seattle</i>
G. NICOLL	<i>Dawson Creek</i>
G. RADFORD	<i>Powell River</i>
R. SHELTON	<i>Penticton</i>
D. SHINNAN	<i>Smithers</i>
G. SNIDER	<i>Williams Lake</i>
J. TESSMER	<i>Port Hardy</i>
M. VEILLETTE	<i>Sandspit</i>
R. WALKER	<i>Quesnel</i>

NORTHERN REGION – EDMONTON

J. BISAILLON	<i>District Manager, In Flight Services</i>
J. BUCHANAN	<i>Manager, Claims</i>
A. C. CAMPBELL	<i>Assistant to Vice-President, Northern Region</i>
G. CANNAM	<i>Manager, Maintenance</i>
D. FISCHER	<i>Regional Manager, Airport Services</i>
C. HARRINGTON	<i>Chief Inspector</i>
G. HELTEN	<i>Regional Sales Manager</i>
H. HERBERT	<i>Manager, Public Relations and Advertising</i>
W. HOWIE	<i>Manager, Hercules & Electra Tanker Operations</i>
K. IRVINE	<i>District Manager, Airport Services</i>
J. IVENS	<i>District Manager, Airport Services</i>
R. B. MACKIE	<i>Chief Pilot</i>
D. MERRIGAN	<i>Manager, Equipment Routing</i>
S. PATERSON	<i>Manager, Customer Services, Edmonton</i>
H. WENDEL	<i>Manager, Catering Services</i>
G. WADE	<i>District Manager, Property and Equipment</i>
G. HANDEL	<i>Manager, Reservation Services</i>

Customer Services Managers

N. DeHOOG	<i>Fort McMurray</i>
D. DENTON	<i>Fort Smith</i>
A. GEE	<i>Uranium City</i>
J. JARBEAU	<i>Norman Wells</i>
L. JOHNS	<i>Inuvik</i>
B. LAMBERTSON	<i>Calgary</i>
G. McFADDEN	<i>Peace River</i>
G. McGOWAN	<i>Cambridge Bay</i>
D. McNEILL	<i>Hay River</i>
G. NICOL	<i>Rainbow Lake</i>
J. WARMAN	<i>Yellowknife</i>
J. WYSE	<i>Resolute</i>

PACIFIC WESTERN TRUCKING LTD.

M. FOX	<i>General Manager</i>
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